

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FEA-01 PA-01 PRS-01 /094 W

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R 021817Z FEB 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6135

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

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AMCONSUL HAMBURG

AMCONSUL DUSSELDORF

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E.O. 11652: NA

TAGS: ENRG, GW

SUBJ: OUTLOOK FOR WINDFALL PROFITS TAX ON OIL AND
GAS PRODUCTION.

REF: BONN 20337

1. SUMMARY: DESPITE EARLIER CABINET "DECISION",
CHANCES ARE DWINDLING THAT FRG WILL THIS YEAR IMPOSE
WINDFALL PROFITS TAX ON DOMESTIC GAS AND OIL
PRODUCTION. REPORTEDLY, FDP HAS QUALIFIED ITS EARLIER
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SUPPORT FOR PROPOSAL. NUMBER OF LAENDER DIRECTLY

OPPOSE IDEA. PERHAPS FOR THESE REASONS, CABINET HAS POSTPONED SINE DIE FURTHER DISCUSSION OF DRAFT LAW FOR WINDFALL PROFITS TAX. END SUMMARY.

2. ECONMINISTRY OFFICIAL, WHO DRAFTED BILL ON WINDFALL PROFITS TAX IN ACCORD CABINET DIRECTIVE (REF), BRIEFED EMBOFF FEB. 2. HE CONFIRMED PRESS REPORTS THAT CABINET HAS CANCELLED SINE DIE PLAN TO REVIEW DRAFT AT FEB. 4 MEETING. HE OPINED THAT FINANCIAL URGENCY HAS GONE OUT OF ISSUE NOW THAT BUND HAS DISCOVERED ITS FINANCIAL SITUATION TO BE MORE FAVORABLE THAN EARLIER PERCEIVED. HE ADDED THAT AT RECENT CABINET MEETING, FDP MINISTERS HAD BACKED OFF FROM EARLIER ENDORSEMENT OF WINDFALL PROFITS TAX AND ARE NOW RESTUDYING CERTAIN IMPLICATIONS, IN PARTICULAR PROSPECT THAT AFFECTED GAS COMPANIES COULD PROBABLY PASS TAX ON TO CONSUMERS. (SAME ARGUMENT HOLDS THAT OIL COMPANIES, BY CONTRAST, COULD PROBABLY NOT DO THIS, BECAUSE THEY PRODUCE LOCALLY ONLY 5 PERCENT OF WEST GERMANY'S PETROLEUM NEEDS AND FOLLOW PRICES SET BY INTERNATIONAL MARKET).

3. DETAILS OF DRAFT BILL AT THIS STAGE ARE AS FOLLOWS:

A. LEVEL OF TAX. THIS IS ONLY KEY ITEM WHICH ECONMINISTRY AND FINANCE MINISTRY HAVE NOT SETTLED. FORMER WANTS MAXIMUM TAX OF DM12-15/TON OF PRODUCED OIL (OR GAS EQUIVALENT); LATTER WANTS DM 30/TON.

B. USE OF REVENUES. FRG WILL PLOW INCOME INTO ENERGY FIELD, "PRIMARILY IN PETROLEUM AND GAS", FOR SPECIFIC MEASURES SUCH AS: OIL AND GAS EXPLORATION, GAS LINES IN UNDERDEVELOPED AREAS OF WEST GERMANY, LARGE GAS-STORAGE FACILITIES, CONVERSION UNITS FOR REFINERIES, AND COAL RESEARCH AND TECHNOLOGY. REVENUES WILL NOT, HOWEVER, FINANCE COAL STOCKS.

C. LEGALITY. JUSTICE AND INTERIOR MINISTRIES HAVE CONFIRMED LEGAL ASPECTS OF DRAFT LAW, REPORTEDLY WITH SOME HESITATION. ECON MINISTRY OFFICIAL

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FM AMEMBASSY BONN

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PERSONALLY SHARES COMPANY VIEW THAT WINDFALL PROFITS
TAX COULD BE CHALLENGED ON CONSTITUTIONAL GROUNDS.

4. OFFICIAL REITERATED THAT ECONMINISTRY OPPOSES
WINDFALL PROFITS TAX AND HOPES IT WILL FADE AWAY. HE
LISTED SEVERAL FACTORS WORKING IN THAT DIRECTION:
A. BUNDESTAG LEGISLATIVE PERIOD ENDS THIS FALL.
WITH INDEFINITE DELAY IN CABINET REVIEW, THERE IS
QUESTION WHETHER SPD/FDP COALITION WILL AGREE ON
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DRAFT BILL IN TIME FOR PARLIAMENT TO ACCEPT IT.

B. ECON MINISTRY BRIEFINGS FOR STATE GOVERNMENTS HAVE ELICITED STRONG LAND OPPOSITION TO FEDERAL TAX OF THIS KIND. LAENDER ARE JEALOUS OF PRE-ROGATIVES IN FIELD OF MINERAL EXPLORATION, IN PARTICULAR THEIR REVENUES FROM ROYALTIES AND CORPORATE TAXATION. BAVARIA HAS THREATENED TO CHALLENGE WINDFALL PROFITS TAX ON GROUNDS THAT IT WOULD IN EFFECT REDUCE GROSS COMPANY INCOME TAXABLE TO LAENDER.

C. UNSETTLED POLITICAL SCENE IN LOWER SAXONY, WHERE MOST DOMESTIC OIL/GAS PRODUCTION OCCURS. IT WOULD BE DIFFICULT FOR PRESENT LAND GOVERNMENT TO CONDUCT NEGOTIATIONS WITH BUND ON IMPLEMENTATION OF WINDFALL PROFITS TAX.

D. POSSIBILITY THAT COMPANIES AND LAENDER MIGHT AGREE ON HIGHER ROYALTY FOR DOMESTIC OIL/GAS PRODUCTION, IN WHICH CASE FRG WOULD HAVE "NO RATIONALE" FOR FEDERAL WINDFALL PROFITS TAX.
CASH

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